Better Buy Right Now: National Bank of Canada vs. Laurentian Bank of Canada

Description

The unemployment rate in Quebec registered at 5.4% in November, as the province added over 16,000 jobs. The province now boasts the lowest unemployment rate in Canada. In a late October article, I'd covered the impressive economic growth in Quebec and focused on several companies that were benefiting from the trend.

Today, we are going to look at two Quebec-based banks that have gone in different directions since releasing quarterly financials. Let's determine which stock investors should buy heading into 2018.

National Bank

National Bank of Canada (TSX:NA) is a Montreal-based commercial bank and the sixth-largest of Canada's major banks. Shares of National Bank have climbed 17.3% in 2017 as of close on December 7. In a June article, I'd discussed why National Bank was a great buy, while it was priced under $54. The stock hit $64 at close on December 7. The bank has posted an impressive string of earnings. In the fourth quarter, it hiked its dividend to $0.60 per share, representing a 3.7% dividend yield.

National Bank released its fourth-quarter results on December 1. The bank reported net income of $525 million, which was a 71% increase from $307 million in the fourth quarter of 2016. For the full fiscal 2017, National Bank posted net income of $2.02 billion in comparison to $1.25 billion in the prior year.

The bank reported growth in each of its core business segments in the quarter. Personal and commercial banking experienced 25% growth in net income and wealth management increased by 26%. For the full year, retail banking reported 66% growth in net income.

Laurentian Bank

Laurentian Bank of Canada (TSX:LB) is a Montreal-based regional bank that services Quebec. Its stock has fallen 2% in 2017. The stock plummeted 10% after reaching an all-time high of $62.90 after an audit revealed $89 million worth of mortgages with “client misrepresentations.” However, Laurentian has played down the finding as a documentation issue rather than a systemic problem.

Laurentian released its fourth-quarter results, which contained the report on the audit, on December 5. The bank posted adjusted net income of $230.7 million, or $6.09 per share, representing 23% and 7% year over year increases, respectively. Loans to business customers rose 22% from the prior year, while residential mortgage loans through brokers and advisors were also up 22%.

The bank raised its dividend to $0.63 per share, representing a 4.4% dividend yield.

Which should you buy?

National Bank will look to build on its strong 2017, but it could face a number of headwinds in 2018. New OSFI mortgage rules are expected to slow Canada housing early next year. In early 2017, National Bank set a goal to become a top three investment bank in Canada. NAFTA renegotiations have continued to sour between the U.S., Mexico, and Canada, and the Bank of Canada estimated that Canada could see foreign investment dip if the agreement is scuttled.

I like National Bank as a long-term hold, but right now Laurentian Bank is an appealing buy. Its fourth-quarter earnings would have been stellar were it not for the results of the audit. The bank began an overhaul of its internal processes in November, and should still benefit from a Quebec housing market that has been highly stable heading into 2018.

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